Rating Action: Moody's places BOAD's Baa1 ratings on review for downgrad

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Paris, March 18, 2022 -- Moody's Investors Service ("Moody's") has today placed The West African Development Bank's (BOAD) Baa1 long term issuer and senior unsecured debt ratings on review for downgrade.

Moody's decision to place BOAD's ratings on review for downgrade reflects pressure on the bank's asset quality as a result of its incapacity to collect payments from all borrowers based in Government of Mali (Caa2 review for downgrade) due to ongoing sanctions imposed on the country by regional institutions. Downside risks to the bank's capital adequacy also stem from broader political instability in parts of its region of operation. While BOAD may receive further support from its shareholders to attenuate deterioration in its capital adequacy, such policy response remains uncertain in terms of scale and timing. Depending on how the situation evolves and the degree of support provided by shareholders, Moody's assessment of the strength of member support may deteriorate. BOAD's liquidity profile is unlikely to weaken.

The review period will allow Moody's to assess the extent to which asset quality will weaken as a result of protracted sanctions on Mali and an increasingly challenging operating environment, but also the effectiveness of potential policy response from the West African Economic and Monetary Union (WAEMU) at supporting BOAD's capital position. Moody's will also consider during the review whether BOAD's strength of member support, scored as "medium", should be revised down.

BOAD is the development finance institution of the West African Economic and Monetary Union (WAEMU) promoting the development of its eight member states Governments of : Benin (B1 stable), Burkina Faso, Côte d'Ivoire (Ba3 stable), Guinea-Bissau, Mali, Niger (B3 stable), Senegal (Ba3 stable) and Togo (B3 stable). BOAD's shareholders comprise WAEMU member countries (47%), the central bank of the WAEMU (BCEAO) (47%) and eight non-regional members (6%).

RATINGS RATIONALE / FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

RATIONALE FOR INITIATING REVIEW FOR DOWNGRADE

Political instability and security challenges in the WAEMU region, including in Mali and Burkina Faso, present risks to BOAD's asset quality and performance, a key driver behind Moody's decision to initiate a review for downgrade.

In Mali, ongoing economic and financial sanctions imposed by the ECOWAS (Economic Community of West African States) and WAEMU have halted all payments flows to BOAD from Mali-based borrowers, including the sovereign, which represent 11% of total outstanding loans or 8% of total assets and 27% of equity. The longer sanctions and political instability persist, the weaker the creditworthiness of Mali-based borrowers will become. Prior to the imposition of sanctions, BOAD had incurred a new non-performing loan in 2021, which came from a private sector company in Mali.

The longer current sanctions last on Mali, the greater the pressure on BOAD's credit profile, which Moody's assesses to be primarily felt through a weakening in BOAD's capital adequacy. Developments in Burkina Faso since the military takeover also represent downside risk to BOAD's asset performance. Strength of member support could also weaken with regional shareholders representing 94% of the callable capital at year-end 2021. The review period will allow Moody's to monitor the evolution of political developments in WAEMU countries and assess the likelihood that sanctions on Mali become protracted. Moody's will also consider potential compensating support from shareholders to ultimately evaluate the extent to which BOAD's capital adequacy looks set to decline.

Mitigating the immediate pressures, BOAD has stopped all disbursements or approval of new loans to Mali-based borrowers, including the sovereign. This is the primary reason why BOAD's liquidity profile is unlikely to deteriorate as a result of the sanctions. BOAD's liquidity is not only supported by internal buffers with a liquid asset coverage ratio as defined by Moody's of 80% but also by its access to the refinancing window of the
central bank of the WAEMU.

Furthermore, BOAD announced on 16 February 2022 the conclusion of the first part of its capital raising plan, which had been approved by its board in 2020. This first tranche of new paid-in capital payable over five years will provide some increased flexibility to the bank to manage ongoing pressure on asset quality, albeit Moody's expectation is that this new capital will primarily finance the bank's expansion in lending activity going forward.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONSIDERATIONS

BOAD's credit impact score is neutral to low (CIS-2), reflecting sound governance and strong shareholder support, including from the central bank of the WAEMU, notwithstanding moderate exposure to environmental risks.

BOAD's environmental issuer profile score is moderately negative (E-3), driven by its exposure to physical climate risks. Many of BOAD's borrowers in Sub-Saharan Africa are exposed to environmental risks, mostly because of their reliance on large agricultural sectors and thus exposure to extreme weather conditions and natural disasters. On the other hand, BOAD provides funding solutions to support member countries' resiliency to climate risk.

BOAD's social issuer profile score is neutral to low (S-2). Customer relationships are strong given the bank's role and importance as the strategic promoter of economic development and second largest financier in the WAEMU region.

WHAT COULD LEAD TO CONFIRMATION OF THE RATINGS AT THE CURRENT LEVEL

The ratings could be confirmed at their current level should Moody's conclude that BOAD's capital adequacy will be resilient to the ongoing crisis in Mali or to further deterioration in the broader regional operating environment and strength of member support remains intact. This could result from a combination of policy support from the WAEMU/shareholders and the resumption or prospect of resumption of payments from Mali-based borrowers.

FACTORS THAT COULD LEAD TO A DOWNGRADE

The ratings would likely be downgraded should Moody's conclude that BOAD's capital adequacy or strength of member support have deteriorated to an extent no longer consistent with the Baa1 rating. In particular, should the ongoing political crises in the region persist and prospects for lifting sanctions in Mali appear low, a downgrade would be likely unless there is swift and commensurate support in response from shareholders.


REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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